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Message Text

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44
ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 L-03 H-03 PA-04 PRS-01 USIA-15

ABF-01 FS-01 AID-20 CIAE-00 COME-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03 CIEP-03

LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08 CEA-02 DRC-01

/182 W
---------- 067623
R 141523Z AUG 74
FM AMEMBASSY ROME
TO SECSTATE WASHDC 6437
INFO AMEMBASSY BERN
AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION EC BRUSSELS
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMCONSUL MILAN
AMCONSUL NAPLES
AMEMBASSY OTTAWA
USMISSION OECD PARIS
AMEMBASSY PARIS
AMEMBASSY STOCKHOLM
AMEMBASSY TOKYO
TREASURY DEPARTMENT WASHDC

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PASS FRB

E.O. 11652: N/A
TAGS: EFIN, IT
SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. FOLLOWING DRAMATIC IMPROVEMENT IN ITALIAN
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BALANCE OF PAYMENTS SITUATION IN JULY, BANK OF ITALY

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HAS ONCE AGAIN HAD TO MAKE NET SALES OF FOREIGN EXCHANGE
IN EXCHANGE MARKET IN SUPPORT OF LIRA SO FAR IN AUGUST.
BALANCE OF PAYMENTS SURPLUS IN JULY WAS $393 MILLION,
REDUCING CUMULATIVE ADJUSTED DEFICIT FOR 7-MONTH PERIOD
TO $6,273 MILLION. LIRA EXCHANGE RATE HAS WEAKENED
ALMOST TO RECORD LOW PREVIOUSLY REACHED IN JUNE. END
SUMMARY.

2. HEAD OF BOI FOREIGN EXCHANGE OPERATIONS AND HIS
ALTERNATE BOTH ON LEAVE SO THAT INFORMATION ON EXCHANGE
MARKET DEVELOPMENTS SO FAR IN AUGUST IS STILL RATHER
LIMITED. HOWEVER, BANK HAS HAD TO MAKE NET FOREIGN
CURRENCY SALES SO FAR IN AUGUST, PERHAPS REFLECTING PSYCHOLO-
GICAL EFFECTS ON EXCHANGE MARKET OF OUTBREAKS OF VIOLENCE SUCH AS
RECENT BOMBING OF ROME-BRENNER TRAIN. NO FIGURES AVAILABLE AS TO
EXTENT OF NET INTERVENTION.

3. PRELIMINARY BALANCE OF PAYMENTS DATA
FOR JULY SHOW OVERALL SURPLUS OF $393 MILLION
AS BOI IMPROVED ITS NET POSITION BY $356 MILLION
AND COMMERCIAL BANKS REDUCED THEIR NET FOREIGN
LIABILITIES BY $37 MILLION. BOI'S FOREIGN CURRENCY
RESERVES ALONE INCREASED BY $258 MILLION. RECORDED
CUMULATIVE BALANCE OF PAYMENTS DEFICIT FOR FIRST SEVEN
MONTHS WAS $4,123 MILLION AND ADJUSTED CUMULATIVE
DEFICIT (INCLUDING COMPENSATORY EUROMARKET BORROWINGS
OF $2,150 MILLION) WAS $6,273 MILLION. OVERALL DEFICIT
WAS FINANCED BY SHORT-TERM EC CREDIT OF $1,885 MILLION,
EUROMARKET BORROWINGS (INCLUDING $150 MILLION MONTEDISON
LOAN WHICH IS NORMALLY SHOWN IN BOI POSITION) OF $2,300 MILLION,
NET SHORT-TERM BORROWINGS BY COMMERCIAL BANKS OF $1,514
MILLION AND NET WORSENING IN REMAINING OFFICIAL ASSETS
AND LIABILITIES OF $574 MILLION (EXCLUDING MONTEDISON LOAN).
BOI'S FOREIGN CURRENCY
ASSETS ALONE FELL BY $836 MILLION.

4. ON AUGUST 13 LIRA EXCHANGE RATE WAS 656 LIRE PER
DOLLAR. ON SAME DATE, WEIGHTED AVERAGE DEVALUATION OF
LIRA, ACCORDING TO BOI INDEX, WAS 18.51 PERCENT. THIS
COMPARES WITH PREVIOUS RECORD LOW OF 18.80 ON JUNE 12. VOLPE
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